



NPOQ

Mastering the Nonprofit Business Model

The Foundation-funded Nonprofit

Advancing Practice Series
from the Nonprofit Quarterly



Guest Faculty

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Dynamics

How this kind of money works

These are funds from a philanthropic entity:



Private Foundation



Public Charity that Grants Money
e.g. Community Foundations and United Ways



Not including donor advised funds (DAFs); they operate more like individual gifts.

Grant Classification



Distinguishing Grant Funds

We distinguish between grant funds that are *targeted to a particular program or project* and what's called *general operating support*.

- always present fully-loaded costs, even if they won't be covered
- structure the grant budget to limit restrictions
- protect general operating funds to fill gaps in other funding

Capital grants are for:



Buying fixed assets



Building up the balance sheet



A change initiative



Critical to understand how each foundation is oriented to your organization.

Do they seek an ongoing relationship with your organization as a whole or do they want to invest in a single project?

Foundations have diverse interests and points of view:



vary greatly in their politics



priorities may vary by region



may bring a racial equity and social justice frame to their funding



may invest in leadership development and organizational capacity building

Key Dynamic: Strategic Philanthropy

“Can’t philanthropy be about making measurable progress toward clear definitions of success? Can more rigor and discipline be brought to decision-making, basing strategies on evidence, not just wishful thinking? Can philanthropy, in other words, be more like business and insist on a social return on investment?”

—Katherine Fulton

“The Predicament of Strategic Philanthropy”

The Center for Effective Philanthropy

Key Dynamic: Place-based Funding

“When a national foundation chooses to develop a strategy around a specific place, its goal is often to change something about the place, rather than just operate in that place...The nature of this work raises important issues around power, agency, voice, and different models of expertise and experience.”

—Prudence Brown

*Effective Place-based Philanthropy: The Role and Practices of a National Funder
The Democracy Fund*



Capital

How this kind of money produces and draws upon forms of capital (working, reserve, etc.)

Critical Distinction

Capital

Revenue

Ask for and use each appropriately.

Foundation funding requires the nonprofit to have its own working capital.



grant payments may come
in increments



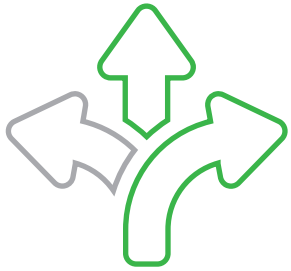
grant payments may come
up front, but grant deploy-
ment may not match cash
flow needs

Big grant payments may replenish a nonprofit's working capital.

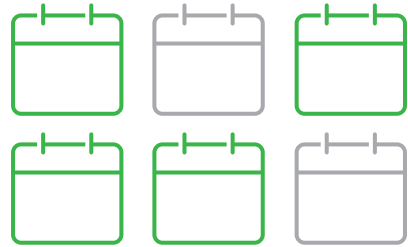


**This requires very careful tracking to
avoid misuse of restricted funds.**

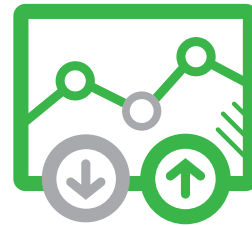
Foundation funding requires the nonprofit to have its own reserve capital:



Foundation may change strategic direction and leave you out.



Foundation may require gap years.



Foundations rise and fall together due to stock market performance.



Foundation may not fund during leadership transition.



Leadership

What skills and perspectives are required of senior staff and board

Executive and senior staff leaders who can:



Build strong relationships with foundation program officers (beyond the "ask")



Communicate compellingly (written and verbal) to make the case for support



Answer a breadth of questions (program impact, budget, organizational direction)

Executive and senior staff leaders with the analysis and conviction to *say no* to grants that:



Pull the organization off of its desired strategic direction



Don't cover full costs

Foundations often inquire about the composition and efficacy of the board of directors:



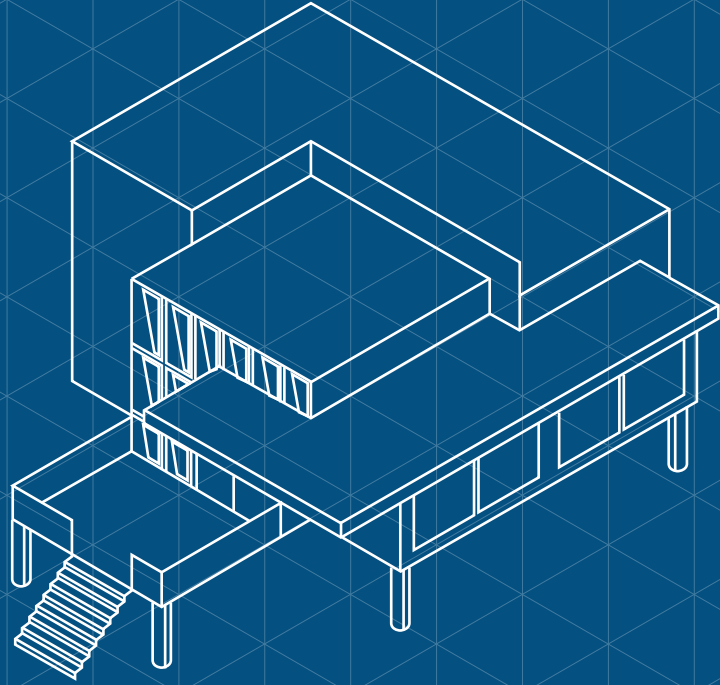
Diversity and community representation



Strong governance policies and procedures



Board members' role in fundraising or "give and get"



Infrastructure

What staffing and systems are required
for management and compliance

For generating grants:



501c(3)

or, if allowed, a fiscal sponsor



Grantwriter

whether on staff or a contractor



Training

consider for all staff



**Strong Document
Management**

e.g. an always up-to-date
"About Us"



Access to Databases

for research and prospecting



Subscription

to key philanthropy-related
publications for ongoing learning

For general compliance and tracking grants awarded:



Form 990s
up-to-date



Annual Audit
may be required



Bookkeeper
with nonprofit-specific accounting experience, whether on staff or a contractor



Accounting Software
that is properly set-up to track restricted funds



Development Database
(or well-structured spreadsheet) to track foundation relationships and grants

For reporting on grant outcomes:



Data Collection

consistent means of collecting data about program participants and outcomes



“Storybanking”

to capture illustrative qualitative data on outcomes



Culture

How organizational culture is typically impacted by this kind of money



Leaders have to keep the organization focused on community and constituent needs even as they steward foundation relationships.

Cultivate open partnerships with foundation funders.



If not proactively addressed by leadership, an organization with many foundation grants can feel "grant driven" or "project driven" rather than like a holistic enterprise.



If not proactively addressed by leadership, staff working on large, grant-funded projects may feel disconnected from their peers, operating with more resources and different programmatic methods. Innovation may be siloed.



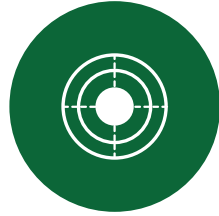
Metrics

Indicators of performance used
with this kind of money



Results are better with a targeted approach to
foundation fundraising
rather than "casting a wide net."

Classic foundation funding metrics include:



Effective Targeting

% of grants submitted that are secured



Effective Stewardship

% of active grants that are renewed



Effective Prospecting

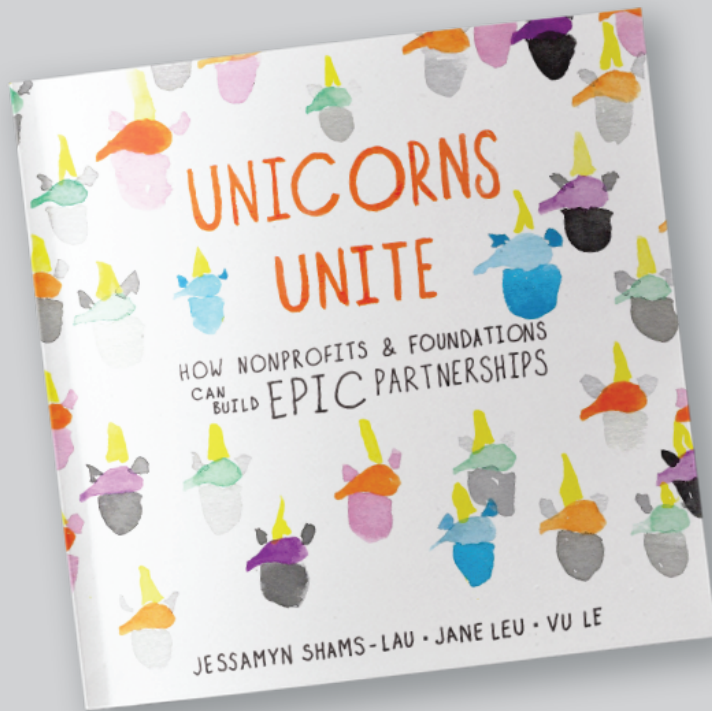
of new foundation funders each year



Growing Confidence of Foundation Funders

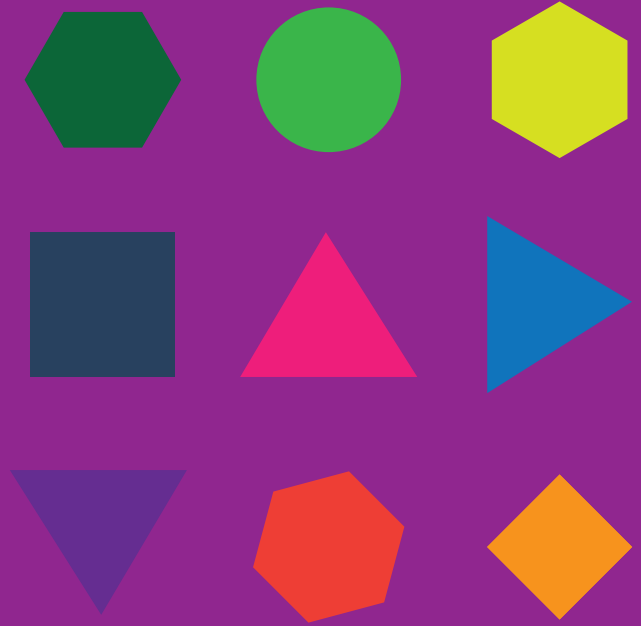
average grant \$ size

Recommended Read



Less well-tracked is the return on investment (ROI) of staff time to secure and maintain a grant.

This can vary greatly and be a significant hidden cost.



Diversification

Considerations when adding or growing this funding stream



Be cautious about securing new foundation funding that requires the organization to add fixed costs like staffing and facility.

How likely is this new funder to stay with the organization to cover these ongoing costs?

In using foundation funding to grow an organization, be realistic about:



availability of general operating dollars



the infrastructure requirements



how this funding complements your other core stream(s)



If foundation grants are to be a primary or secondary stream in the business model,
invest in diversifying WITHIN this stream.



Thank you!

Please complete the evaluation survey coming your way shortly.

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